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World Financial Markets

Morgan Guaranty Trust Company of New York

August 1985

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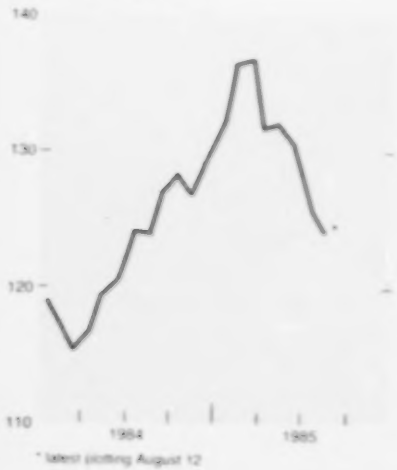
Nominal effective dollar exchange rate

1980-1982 = 100



* latest plotting August 12

The lower dollar

The dollar has undergone a sizable but orderly decline. In early August it stabilized close to its level of a year ago, but negative sentiment persists. On a trade-weighted basis the dollar is now 12% lower than at its late February peak (see Chart 1). It has declined about 19% against the mark and 25% against sterling, but only 10% against the yen (see Chart 2). The Canadian dollar, with a 30% weight in the dollar index, has appreciated only 3%.

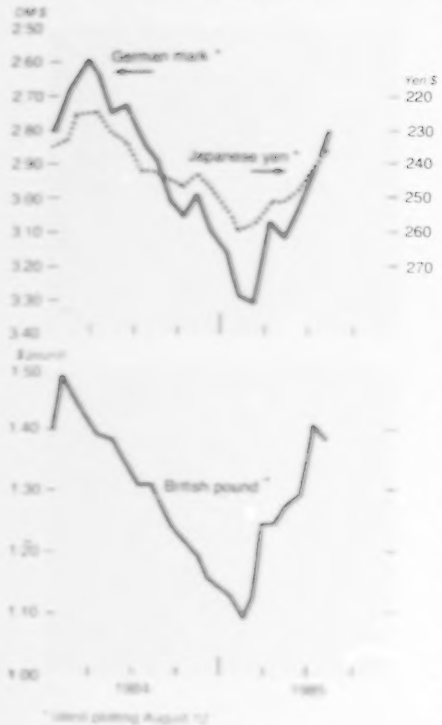
The dollar's drop owes much to the slowdown in U.S. economic growth and lower U.S. interest rates. The U.S. economy has been in a growth recession for some time. Real GNP in the second quarter was only 1.9% higher than a year ago, compared with the 7.5% growth achieved from mid-1983 to mid-1984. The unemployment rate has been roughly unchanged for a full year. The growth slowdown mainly reflects domestic demand, which contributed 3.3% to real GNP in the latest four quarters, down from 9.1% in the previous twelve months.

The leakage from the trade deficit has remained unchanged at around 1.5% of GNP in the latest four quarters. But, with slow domestic demand, that leakage has meant stagnation in the manufacturing sector. By June industrial production was only 1.9% higher than a year ago, compared with a 12-month rise of 13.5% in June 1984 (see Chart 3). Manufacturing employment in July was down by 210,000 from its January peak, although employment continues to increase in sectors of the economy not facing import competition. Overall private, non-farm employment has risen by 1.1 million since January.

Some economic pickup is expected in the second half of this year. Projections range from 3% or so among private forecasters to the Administration's optimistic 5%. This recovery is predicated on the effect of significantly lower interest rates on rate-sensitive sectors, stronger inventory accumulation, and some leveling out of the trade deficit. However, a vigorous and lasting recovery is far from assured. The ballooning of the trade deficit to $13.4 billion in June, compared with its $11.8 billion monthly average for the first half as a whole, marks an important setback. Pervasive weakness in the manufacturing sector could unsettle both business investment and consumer perceptions about income and employment prospects. Inventory restocking will likely be modest, given high real interest rates and the wider economic uncertainties.

Chart 2

Selected exchange rates

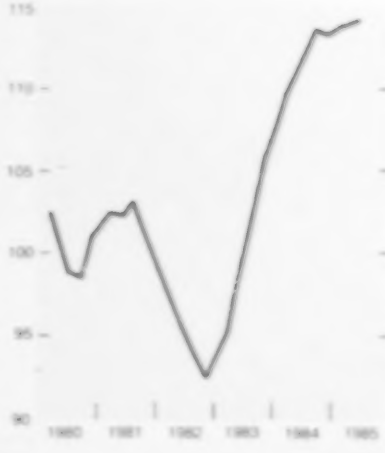


* Latest plotting August 12

Chart 3

U.S. Industrial production

1980 = 100



Interest rates have declined sharply in the United States since late-summer 1984, and by much more than abroad (see Table 1). By early August, the three-month Eurodollar rate had fallen to about 8% from 12% in June 1984. Interest rates in Continental Europe have declined more gradually. In Japan they are virtually unchanged. British rates are sharply higher than a year ago. As a result, the dollar-mark interest rate differential has dropped from 6.3% to 3.3% and the dollar-yen differential from 5.9% to 1.6%. The sterling differential has reversed from 2.7% in favor of the dollar to 3.4% in favor of sterling.

In the latter part of 1984, U.S. market interest rates eased as the economy began to limp, reversing the upward pressures engendered by the Federal Reserve's restrictive policy designed to curb the runaway growth of the first half of that year. Inflationary expectations receded, thanks to continued moderation in unit labor costs, declines in commodity prices, and the strong dollar. At first, the Federal Reserve merely followed market interest rates, while its overall policy remained tight as indicated by slow growth of M1 and a soaring dollar. By early 1985, the Fed began to ease aggressively; it was increasingly concerned by the negative impact of an exceptionally strong dollar on manufacturing output, employment, and profitability. By June M1 growth reached an annualized 12% from its 1984 fourth-quarter base, far above the 4%-7% target. In July, the Federal Reserve ratified its easier policy stance; not only did it change its target base period for M1 to the 1985 second-quarter average, thus forgiving the earlier overshoot, but also it widened the target growth range to 3%-8%.

The dollar also has come under a cloud due to the effective failure to resolve the federal budget impasse. Following months of muddle, Congress finally adopted a budget resolution at the beginning of August. Ostensibly, it calls for a $55 billion cut in the deficit for fiscal 1986 and total savings of $276 billion over three years. According to most estimates, however, the actual savings offered by the Congressional plan over this next fiscal year would be not much more than half the proclaimed figure; even on quite favorable economic assumptions, the deficit will remain little short of $200 billion. Furthermore, the present resolution is only indicative and could lose its force in the appropriation process. Thus, the anticipated deficit reduction may not materialize. While the large federal deficit may have contributed to a strong dollar in the past, insofar as it has increased real interest rates, continued failure to come to grips with the deficit is likely to erode confidence in the dollar. Huge deficits either divert resources from the private sector, undermining long-run growth prospects for the U.S. economy, or entail continuing dependence on inflows of foreign capital, for which a price will someday be paid.

The dollar's decline is likely to have little economic impact, since its sharp peak last winter was short-lived. Indeed, if exchange rates were to hold unchanged at current levels, the dollar's trade-weighted index for 1985 would average 5% higher than in 1984, and would fall just 3% in 1986 (see Table 2). Thus, the dollar still would be higher in 1986 than in 1984. At best the dollar's recent depreciation will only moderate the further deterioration in the trade deficit implied by its earlier appreciation. At any rate, the gaping U.S. trade deficit with Japan is likely to continue widening, because the yen has appreciated only half as much as the European currencies and also because the relaxation of the voluntary restraint program is boosting Japanese automobile exports.

Table 1

Three-month Eurocurrency interest rates

percent per annum

	August 12, 1985	*Change since June 1984*
Dollar	7.9	—4.2
Japanese yen	6.3	0.1
Canadian dollar	8.9	—3.2
German mark	4.6	—1.3
French franc	12.3	0.0
British pound	11.3	1.9
Italian lira	13.2	—2.1

Table 2

Selected exchange rates

units per dollar, except as noted

	Average 1984	*Aug 12, 1985*	*Hypothetical % changes* 1985*	*1986*
Japanese yen	238	237	—3	4
Canadian dollar	1.30	1.36	—5	0
German mark	2.84	2.80	—5	6
French franc	8.74	8.55	—4	6
British pound	1.34**	1.38**	—5	7
Italian lira	1757	1878	—9	3
Nominal effective dollar, 1980-82=100	122	124	5	—3

*From previous year's average, assuming rates hold unchanged at levels of early August 1985 for the remainder of 1985 and 1986. Minus sign indicates depreciation.
**Dollars per pound.

For a dollar decline to have a material impact on the overall U.S. trade deficit it has to be greater and sustained longer than has yet been the case. A further 10% sustained depreciation would benefit the trade deficit by about $20 billion within two years.

Similarly, the inflationary impact of the dollar's decline to date is unlikely to be severe. The same should hold true of a further moderate decline below present levels. In the current environment of wage restraint, continuing weakness in non-oil commodity prices, and soft oil markets, the inflationary effect of moderate dollar depreciation should be greatly dampened: that has certainly been the European experience with the decline in their currencies these past several years. But a downside overshoot of the dollar — as few would either welcome or expect — would be a different story, since it might easily precipitate the return of a wage-price spiral that would significantly raise the ongoing U.S. inflation rate for years to come.

In all, the modest decline in the dollar, while a welcome development for the U.S. industrial sector, leaves unresolved the issue of how to scale down the trade deficit. Although the Japanese trade measures that were recently announced have interesting features for long-term U.S.-Japanese bilateral trade relations, they are not designed to achieve reduction in the trade imbalance during the next few years. Neither the Japanese nor German governments show any sign of responding positively to the gathering pressures for policy changes voiced by the United States, Britain, the OECD, or their own prestigious research institutes. With the industrial nations unwilling to address the huge U.S. trade imbalance in a constructive manner, the risk continues to grow that political pressures will force a destructive solution by stepped-up protectionism. To ward off that dangerous course, there should be no letup in pressures on the United States to curb its budget deficit, on Japan to open its markets, and on low-inflation, high-trade-surplus countries to accelerate their economic growth.

European monetary issues

July's 7.8% devaluation of the Italian lira's central rate against other currencies participating fully in the European Monetary System (EMS) took the financial markets pretty much by surprise. Yet, the greater surprise should have been that more than two years could have elapsed with no EMS realignments at all. Although disparities continue in the economic performance of the member countries, they have been less extreme these past two years than during 1981-82, when France pursued an expansionary policy diametrically opposite to that of Germany. With all EMS members subsequently marching under the banner of fiscal rectitude, financial strains have been contained without conspicuous difficulty. Significantly, until last month's lira move, there was no recurrence of chronic strength of the German mark within the EMS band, as had typically preceded earlier realignments of the system.

As for the future, the challenge of achieving more complete convergence in the European Community (EC) is unlikely to diminish. The dollar's rising trend during most of this decade has mitigated disparities of trade performance and fiscal rigor, as well as incipient EMS currency tensions. Should the dollar trend lower in coming years, EMS strains may prove harder to contain without periodic realignments.

Still, the system's usefulness is not

Table 3

Real effective exchange rate variability

standard deviations of month-to-month percent changes
figures in parentheses refer to variability of intra-EMS relationships alone

	1973 Mar-1979 Mar	*1979 Apr-1983 Mar*	*1983 Apr-1985 Jul*
Belgian franc	1.0	0.9	0.5
	(1.0)	(0.8)	(0.5)
Danish krone	1.8	1.4	1.1
	(1.8)	(1.2)	(1.0)
French franc	1.5	1.3	0.8
	(1.5)	(1.2)	(0.6)
German mark	1.4	0.9	0.6
	(1.2)	(0.6)	(0.3)
Irish pound	1.3	1.5	1.1
	(2.3)	(0.9)	(0.5)
Italian lira	1.8	0.9	0.7
	(2.1)	(0.9)	(0.8)
Dutch guilder	0.9	0.9	0.6
	(0.9)	(0.8)	(0.4)
British pound	1.9	2.3	2.0
Japanese yen	2.2	2.9	1.2
Dollar	1.3	2.0	1.7

Table 4

Consumer prices

	Percent change per annum Dec-Dec		*Cumulative percent change April 1983-July 1985*
	1980	*1985*	
Belgium	7.5	5.0	14.2
Denmark	10.9	4.5	13.5
France	13.9	6.0	16.9
Germany	5.5	2.3	5.7
Ireland	18.3	5.0	18.0
Italy	21.3	8.7	23.9
Netherlands	6.7	2.5	6.3
United Kingdom	15.1	5.8	13.2
Japan	7.0	1.9	5.7
United States	12.4	3.5	9.0

determined by its success in stifling currency adjustments but by how well it fosters Europe's overall economic performance and unity. The scope of the EMS will be significantly expanded if Britain chooses to place sterling under the discipline of the EMS exchange rate mechanism. Six years ago, at the start, Britain likely was right to stay out. Today, with U.K. monetary targeting in disrepute and near-abeyance, the economic case for joining up is more attractive. The political case is another question, since British enthusiasm for things European is hardly unbounded.

Resolution of political obstacles is as crucial for the EMS as for Community conflicts over agricultural and budget policies or the creation of a true common market. In the monetary field, most EMS members still maintain controls, of varying severity, on intra-Community capital flows. Gradually, and perhaps now at a quickening pace, technology and market forces are wearing down the effectiveness of controls. But political reluctance to subordinate monetary policies to supranational authority remains strong. Some observers see the fast-widening private use of the European currency unit (ECU) as both the precursor of a European currency and the promising way forward for the EMS. However, no matter how interesting the rise of the private ECU may be as a market phenomenon, evolution of the EMS toward genuine European monetary integration requires explicit political decisions.

Incomplete convergence

The underlying economic divergences among EMS members have narrowed since the spring of 1983, providing much greater stability of their mutual trade competitiveness than during the first four years of the system's existence. Table 3 shows that the gains in month-to-month real exchange rate stability are particularly evident when judged on intra-EMS relationships alone. Thus the EMS has provided its full members partial satisfaction of their quest for a zone of monetary stability.

Table 4 shows that there has been major progress in bringing down consumer price inflation in all EMS countries, especially in France, Ireland, and Italy, where inflation was entrenched in double-digit territory. Adherence to the EMS has played a useful role. Still, French and Italian inflation rates remain well above the 2%-4% range that Germany and the Netherlands have maintained since economic recovery got under way early in 1983. By this July the level of consumer prices had risen approximately 24% in Italy and 17% in France since April 1983, just after the last major realignment, versus under 6% in Germany.

Competitive imbalances have therefore emerged. Judging by manufactures wholesale prices, the real exchange rates of Germany and the Netherlands, vis-à-vis other EMS members, were nearly 4% more competitive by mid-1985 than in April 1983; Belgium's improvement was a more modest 1%. The gains of these three members were matched by losses for the rest: 3% for Denmark, 4% for Ireland, and 5% or more for both France and Italy. These intra-European losses were not particularly troublesome so long as overall competitive gains were provided by a strengthening dollar (see Table 5). However, the dollar's rise climaxed a full five months ago. It has since come down sharply against the EMS bloc, by an average of 18% as of early August.

Relative price competitiveness provides one recognized approach to gauging the viability of EMS currency relationships. However, de-

Table 5

Real effective exchange rates

1980-82=100

	Apr 1983	Feb 1985	Aug 12, 1985
Belgium	93.1	91.3	89.8
Denmark	100.1	96.3	99.6
France	96.6	97.0	102.5
Germany	101.1	94.5	95.8
Ireland	101.8	101.7	101.2
Italy	100.3	101.7	101.5
Netherlands	102.0	97.4	100.9
United Kingdom	90.8	83.8	94.4
Japan	96.2	93.5	93.3
United States	110.6	129.7	118.7

Table 6

Sources of real GNP growth: 1985

based on OECD estimates

		Change as percent of 1984 GNP	
	Percent change	Domestic demand	External demand
Belgium	1.7	1.0	0.7
Denmark	2.7	1.7	1.0
France	1.3	0.8	0.5
Germany	2.3	1.0	1.3
Ireland	2.0	0.3	1.7
Italy	2.3	2.3	0.0
Netherlands	2.0	1.0	1.0
United Kingdom	3.0	2.3	0.7
Japan	4.5	3.2	1.3
United States	2.8	4.1	—1.3

pending on cost and demand conditions, price competitiveness may entail business profits that are high, low, or even negative. The indications are that profitability is relatively strong in Germany and also has strengthened considerably in France. The French improvement has been purchased at heavy social cost in terms of economic growth and long-deferred labor shedding in the industrial sector. The improvement is the more impressive for being achieved in the face of an adverse real exchange rate trend and of the government's austerity program, which has attenuated domestic demand (see Table 6).

By accident or design, most other EMS members have achieved less rigorous restraint of domestic demand, with the result that their external accounts are no longer improving or, in the cases of Belgium, Denmark, and Italy, have worsened this year (see Table 7). The positions of the weaker members would look still more vulnerable were it not for their participation in the $19 billion improvement that occurred between 1983 and the first half of 1985 in the collective EC trade surplus vis-à-vis the United States.

Trade balance divergences among the EMS members are likely to widen further, except in three eventualities: that Germany takes material steps to boost its domestic demand, so as to alleviate external payments pressure on its partners; that EMS members suffering impaired price competitiveness, or marking up more rapid domestic growth than Germany, cut back their own domestic growth — as Denmark is now attempting; or that they seek realignment of their currencies within the EMS — as Italy did last month.

Unquestionably, the partners favor German expansion as posing minimal inflationary threat. This course, however, meets determined resistance from orthodox opinion in Germany itself. In the vulnerable countries, redoubled domestic austerity is generally unappealing for employment and electoral reasons, although policy rigor may hold sway politically for some period to come. Accordingly, EMS realignment looks to be the only way out of ultimately untenable positions. France presents the major question mark: an early devaluation of the franc would likely provide scant benefit to French trade or employment ahead of the Assembly elections next March; its inflationary consequences would appear more quickly; and the act of devaluation would undermine the government's prestige. Over the next seven months, however, surprise developments could well precipitate an earlier denouement.

Britain and the EMS

U.K. financial and industrial circles are displaying renewed interest in bringing sterling into the EMS exchange rate mechanism. When the EMS was launched in March 1979, Britain embraced the new system in every aspect save its most important feature, namely the observance of exchange rate margins for sterling. At the time, monetarism held considerable intellectual sway. The Thatcher Administration, which was shortly to take office, set great store by the presumed benefits for inflation expectations that would accrue from credible targets for its preferred monetary aggregate, sterling M3, targeting of the exchange rate, as full participation in the EMS would have demanded, was seen as neither necessary nor helpful in the battle for price stability.

As is well known, sterling M3 has proved hard to control in practice. Moreover, as the second oil shock unfolded, the initial "benign neglect" toward the exchange rate

Table 7

Trade balances

estimated on a balance of payments basis billions of dollars at seasonally adjusted annual rates

		Year to latest date*	
	1984	*1985*	*Change from same period of 1984*
Belgium	—2.8	—2.1	—0.4
Denmark	—0.2	—0.6	—0.3
France	—4.0	—4.3	0.9
Germany	24.1	26.1	5.6
Ireland	0.0	0.5	0.1
Italy	—6.0	—10.3	—7.6
Netherlands	5.4	3.9	—1.2
United Kingdom	—5.7	—3.8	—0.2
Japan	44.3	49.2	8.1
United States	—108.3	—130.0	—23.5

*Jan-Jun, except Belgium: Jan-Apr; Italy: Jan-May.

Table 8

British monetary targetry

annual-rate percent growth in sterling M3; target periods are generally for the 14 months ending in April of year indicated

	Target range	*Actual*
1978	9-13	16.0
1979	8-12	10.9
1980	7-11	10.3
1981	7-11	22.2
1982	6-10	13.5
1983	8-12	10.8
1984	7-11	9.9
1985	6-10	12.2
1985 July	5-9*	12.0

*Since May 1985, applies to ongoing 12-month rate of growth, superseding the former practice of measuring growth from February base periods.

proved economically costly. At least since 1981, the history of U.K. monetary policy has been one of dissension over both the merits of monetary aggregate targets and the appropriate techniques of monetary control; of manipulation of actual monetary growth, symbolized by the commercial bill mountain piled up by the Bank of England; and, almost by default, of sterling's gradual return to primacy in the U.K. monetary order

In all this there are parallels between U.K. and U.S. experience. However, differences remain. The Federal Reserve interprets the monetary aggregates in terms of their conjectured, yet evidently unstable velocity relationship to nominal GNP, while paying close attention also to trends in the real economy, inflation, and the dollar exchange rate. Still, although the Fed may have strong preferences about the dollar's value, the United States cannot, as the leading world economy, pursue an exchange rate policy without regard for global price stability. No other country can assume the latter responsibility. When the Fed abdicates its global role, as it did in the 1970s, the consequences for the world at large are grievous indeed.

Britain has the option of substantially identifying its monetary policy with exchange rate policy. To be sure, one cannot be completely confident that control of prices — interest or exchange rates — affords better economic results than control of monetary aggregate quantities. Accordingly, much U.K. opinion remains sympathetic to the targeting of nominal GDP. However, it increasingly recognizes that velocity uncertainties in a period of rapid financial innovation and deregulation render every suggested monetary aggregate unreliable; the current official targets, for sterling M3 and MO (predominantly notes and coin), elicit particular skepticism (see Table 8).

At the same time, the extraordinary gyrations of sterling stand in marked contrast with the relative effective stability of currencies within the EMS exchange rate mechanism (see Chart 4). Last year, Britain conducted 45% of its total manufactures trade with other members of the EC. U.K. industrialists have been understandably shaken by a sterling-DM cross rate that, on a weekly average basis, has varied between 3.54 and 4.03 DM per pound in the past year alone. That is a range of 14%, nearly half as much again as the actual range of the lira-DM cross rate (including its July realignment) and three times the maximum fluctuation permitted other EMS currencies in their cross rates with the German mark.

Sterling's full participation in the EMS offers the best hope for greater U.K. exchange rate stability. Provided the exchange rate commitment were seriously pursued and defended, which might well involve greater domestic interest rate volatility than at present, there could be an added bonus from U.K. participation: the binding of sterling to the low-inflation German mark could materially lower U.K. inflation expectations and interest rates — as monetary control was intended to accomplish The exchange rate may well convey a more forceful and convincing message than ambivalent targeting of opaque monetary aggregates.

Discipline of U.K. inflation expectations has become especially vital in view of this year's rise in actual inflation to about 7%, the signs of escalating private-sector wage settlements, and public-sector catch-up pressures — all suggestive of undue ease in interest and exchange rates during 1983-84. From the January crisis until recent weeks, the government has relied on very high interest

Chart 4

Sterling's instability

real effective exchange rates, 1980-82 = 100

* latest plotting August 12

rates and a much appreciated pound to restore price and wage discipline. The instruments are effective, if applied consistently over an extended period, but their cost can prove heavy in terms of economic growth, exports, and employment. Full participation in the EMS could furnish the same degree of domestic discipline as a high floating exchange rate, but at a quasi-fixed exchange rate that in real terms is less punishing of industry.

A number of objections still are cited to Britain's full entry into the EMS. One concerns the discordant behavior of the pound and the mark at times of oil market uncertainty. In the wake of the second oil shock, when both market valuations of petroleum assets and Britain's North Sea oil production were soaring, the petrocurrency tension would almost certainly have made it impracticable to hold sterling at fixed exchange rates within the EMS. The same difficulty could present itself again, at least in muted form, if the oil price were to decline more drastically than most current forecasts contemplate. However, with North Sea output now on a plateau and unlikely to fall steeply for some time to come, there is not today the coincidence of oil-sector price and volume risks pointing on the downside for sterling as occurred six years ago on the upside. Thus, sterling now appears more manageable in the EMS context, with the system's ample credit facilities also offering an attractive insurance for Britain. Of course, economic shocks come in many forms and may cause trouble for any fixed exchange rate system. Still, EMS parities are not immutable; the system does provide for currency realignments when basic circumstances change.

Another objection, partly related, concerns incorporation of a second reserve currency within the EMS alongside the German mark. Some observers foresee possible instability between rival currencies as the European financial arena becomes more closely integrated. Instability obviously cannot be ruled out, especially when policies are at odds. However, the U.S.-Canadian example shows that financial integration is not inevitably disruptive. In the EMS context, the twin reserve-currency worry is largely beside the point: only in the depth and international integration of U.K. domestic financial markets does sterling outclass the mark. Although London is undoubtedly Europe's premier financial center, the pound sterling has been long eclipsed by the German mark as a reserve currency; neither is it a major Eurocurrency. Moreover, the German economy is 40% larger than Britain's.

These considerations may lie behind the final, rarely articulated objection to Britain's full participation in the EMS, namely the dislike of perceived subjection to German hegemony or some supranational bureaucracy. Such concern is evident in the British Labour party and is hardly absent among the Conservatives. It is not allayed by appeal to the partly conjectural economic benefits that the EMS may provide Britain itself, substantial as they may very well be.

On a broader plane, Britain's full participation in the EMS also appears prerequisite to genuine progress toward European monetary union; to settle for a two-tier Europe would undermine Europe's potential role in the world at large. Sterling's accession would strengthen the constituency for free movement of capital within the Community. Certainly, it would expand significantly the sphere of intended European currency stability, whether or not such stability proved durable without periodic realignments. Moreover, it would be a political boost for a

Table 9

The ECU's progress

billions of dollars
by currency of denomination

	1983	1984	Jan-Jun 1985*
New international bond issues			
ECU	2.0	3.0	6.4
Dollar	42.9	69.1	108.0
German mark	6.5	6.8	9.0
Swiss franc	14.3	12.6	12.0
Japanese yen	4.0	5.8	9.7
British pound	2.8	5.3	5.2

	End-1983	End-1984	End-March 1985
External foreign-currency assets of BIS-reporting banks in industrial countries			
ECU	6.9	18.0	23.6
Dollar	756.2	778.9	787.0
German mark	122.2	115.9	117.8
Swiss franc	58.4	51.9	56.6
Japanese yen	17.2	22.1	24.7
British pound	12.4	14.5	20.8

*Annual rate.

European Community whose drive for unity has been stalled so far in the 1980s.

The ECU: future of the EMS?

The high degree of EMS exchange rate stability these past two years and the growing talk of sterling's accession encourage thoughts of European monetary union. The surprisingly swift emergence of a sizable private ECU market is further taken in some quarters to indicate market readiness for progress.

The ECU, virtually insignificant four years ago, is now the unit of account for close to 5% of all new international bond issues (see Table 9). Whereas the ECU was formerly of commercial interest mainly to French and Italian borrowers, and also enjoyed political favor in Community borrowing, ECU paper has come to figure prominently this year in the financial strategies of a wide range of international borrowers, often in conjunction with sophisticated swap arrangements. The ECU is being actively promoted by a number of private financial institutions on its investment merits. The ECU's composite nature offers investors higher yields than are provided by German mark instruments at what is seen as limited exchange risk; borrowers in high-inflation, high-interest-rate countries find that ECU financing provides attractive interest cost savings; and, on either side of the balance sheet, the ECU can provide a useful measure of currency diversification.

The sparkling success of the private ECU leaves some European monetary officials a little embarrassed at the glacial progress of their own official unit. Only this past June, after a full six-year experience with the EMS, did they at last agree to a cautious relaxation of prevailing restrictions on use of the ECU for transactions among their own central banks or, for some purposes, with those of nonmembers. For the first time, but still within limits, member countries may mobilize their official ECU holdings to obtain dollars or Community currencies for intervention inside EMS margins, rather than only when those margins are actually reached; this step had to overcome long-standing objections that intramarginal intervention potentially could be abused to frustrate market signals of the need for policy changes. Other reforms introduced this July include a modest liberalization of the 50% rule on members' acceptance obligations toward ECUs offered in settlement of intervention balances, and remuneration of net ECU claim positions at money-market related interest rates, in place of administered discount rates — a step which should enhance the appeal of official ECUs.

These steps were difficult and delayed because there still are wide differences of opinion on what is entailed in substantive progress toward European monetary union and on how, if at all, the ECU — private or official — can play a constructive role to that end. It is evident that some of the interested parties are content with symbolic gestures or with technical improvements serving no clear purpose. Some would like to promote the ECU as a reserve asset in competition with the dollar and the mark. Supposedly that would allow Europe to stand more nearly shoulder-to-shoulder with the United States, presumably permitting Europe to share in what it has long deplored as the unique U.S. privilege of seignorage. Alternatively, it is claimed — naively — that the development of attractive private and official ECU assets would deter or drain off speculative capital flows into "hard" EMS currencies at times of dollar weakness or prospective realignments of the

EMS itself.

Equally unrealistic is the notion that the private ECU can prosper, spread, and spontaneously achieve the stature of a common European currency, perhaps circulating in parallel with national currencies, without tough political decisions on the part of the Community members. The Dutch and German authorities correctly emphasize that the political issues cannot be brushed aside. For example, the private ECU lacks standard features of a true currency, such as formal convertibility, a central bank of issue, and lender of last resort. These attributes cannot be put in place short of a concerted decision by European governments to establish the equivalent of an independent European central bank, endowed with powers of market intervention and liquidity issuance. Its functions would supplant several of those currently exercised and keenly defended by national central banks. Moreover, in a common currency environment or one in which fluctuations of national currencies were progressively suppressed, there would be a need for centralized authority over national budgetary practices. These are formidable requirements, to which no national government can be expected to accede for years to come.

In the meantime — despite the acrimony bred of successive EC summit wrangles on agriculture, budget, and internal trade policies — there is scope for constructive and perhaps enhanced cooperation among European central banks with the discreet backing of their governments. Taking on ambitious new commitments any time soon in the monetary field makes little sense without more complete fulfillment of existing commitments. Contrary to the Treaty of Rome, two founder members of the EC — France and Italy — still maintain exchange controls on intra-Community transactions, if recently somewhat liberalized; Belgium has a two-tier currency; and, with the full exception only of Britain, the newer members of the Community all maintain controls ranging from fairly permissive to rigidly restrictive.

Over time, the geographic scope of the EMS can feasibly grow to encompass sterling and, at some point in Spain's transition process as a new member of the EC, the peseta. The chances for Greek and Portuguese participation appear slim.

More harmonious macroeconomic policies also are important to the future stability and usefulness of the EMS. Much has already been achieved toward some convergence of inflation and the correction of outsize budget deficits, except in Italy. So far the emphasis has had to rest on policy restraint on the part of wayward members, lending some substance to the charge of deflationary basis in the system itself. The EMS, like its predecessor "snake" and the Bretton Woods system, disciplines the profligate but fails to spur economic expansion in its low-inflation members. Right now, the pressing need is for a more expansive economic approach in Germany, so that Europe can tackle its unemployment and other internal problems more positively and also play a helpful role in global economic adjustment.

In sum, although the private ECU is meeting legitimate market needs in a useful way, its systemic significance should not be exaggerated. Today's political realities compel skepticism about the practical willingness of European governments to cede national sovereignty over basic economic policies to supranational authority. Until that willingness becomes more evident, the term "ECU babble" will remain all too descriptive of many pronouncements concerning Europe's readiness for monetary union.

Statistical appendix

For key to data in tables see pages 18 and 19.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1984	122.4	97.3	113.0	94.2	84.4	107.4	86.7	88.1	103.6	88.9	104.0	77.4	110.5	93.9	97.8	84.3
1984																
August	124.0	97.0	111.4	91.9	84.3	107.3	86.6	87.9	103.8	89.3	103.8	76.6	108.8	93.6	97.1	84.6
September	127.3	96.7	112.0	92.1	83.6	106.2	85.9	87.1	103.2	88.9	103.1	76.9	109.3	93.2	96.9	85.6
October	126.5	96.6	112.0	93.6	83.7	106.3	85.7	85.3	103.2	88.7	103.2	77.0	109.8	93.4	97.1	85.6
November	126.8	96.5	112.5	95.0	84.0	106.7	85.6	85.2	103.4	89.3	103.5	77.4	110.2	94.2	95.5	85.1
December	129.5	96.7	112.0	94.8	83.6	106.1	86.0	83.7	103.2	89.3	103.0	77.8	109.5	94.5	95.5	85.0
1985																
January	132.0	96.9	110.5	93.8	83.7	106.2	86.3	81.0	103.4	89.9	103.0	78.1	107.8	95.0	95.7	85.0
February	136.4	95.3	110.0	86.8	83.5	105.8	85.4	81.4	103.3	89.3	102.5	77.6	105.9	94.4	95.8	85.5
March	136.9	93.2	111.3	81.5	83.7	105.9	83.7	84.0	103.0	89.0	102.5	77.2	105.8	94.3	95.7	84.6
April	131.7	93.6	111.5	74.2	84.5	106.7	83.0	88.1	103.8	89.2	102.9	77.5	108.0	94.5	96.0	83.6
May	132.0	92.9	111.5	76.3	84.4	106.5	82.9	89.2	103.5	89.0	102.9	76.5	107.4	93.7	96.0	83.8
June	130.5	93.2	112.2	74.2	84.4	106.5	83.0	90.4	103.6	88.9	103.0	76.3	107.6	94.3	95.8	83.8
July	125.8	93.4	113.1	75.5	85.3	107.2	81.2	93.7	103.9	89.0	103.5	75.5	109.9	94.5	95.7	83.6
June 28	130.0	93.4	112.0	74.2	84.5	106.5	83.0	91.2	103.2	88.8	103.0	75.4	108.1	94.0	95.6	83.9
July 5	129.2	93.7	112.0	74.0	84.6	106.5	83.0	91.9	103.3	88.9	103.0	75.4	107.9	94.0	95.6	83.9
12	126.6	93.5	112.5	74.7	85.1	106.9	82.3	93.8	103.4	88.9	103.3	75.5	108.7	94.1	95.6	83.7
19	124.4	93.4	114.6	76.4	85.4	107.2	81.6	93.8	103.9	89.2	103.6	75.6	110.2	94.5	95.7	84.4
26	124.8	93.4	113.5	76.2	85.8	107.6	79.4	94.3	104.1	89.2	103.8	75.3	111.5	94.8	95.6	84.4
August 2	123.9	93.1	113.8	76.7	86.2	108.3	78.9	93.1	104.4	89.4	104.5	75.5	112.5	95.4	94.0	84.4
9	124.9	92.9	113.9	76.4	86.1	108.4	80.2	90.4	104.6	89.8	104.7	75.3	111.3	95.4	95.7	83.3

Real effective exchange rates — industrial countries

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	89.4	99.6	103.0	93.0	102.1	103.5	103.5	99.9	100.2	107.5	99.9	100.9	98.7	103.5	96.6	101.2
1981	100.6	100.0	104.6	102.7	100.1	97.3	98.7	102.3	99.1	100.3	97.6	99.4	98.7	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.3	97.8	99.2	97.8	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.7	103.1	96.6	100.0	96.1	99.3	100.1	92.0	101.7	92.0	101.8	90.6	104.4	98.8	101.3	91.5
1984	118.2	101.2	97.6	105.1	96.8	96.5	101.1	89.3	102.7	90.9	100.1	95.0	99.4	96.5	100.1	96.9
1984																
August	119.5	101.2	96.0	103.3	97.2	96.1	101.5	89.4	103.0	91.3	99.9	94.3	97.3	95.8	98.5	97.8
September	121.5	101.4	96.8	103.7	96.3	95.2	101.0	88.3	102.0	90.8	99.2	95.6	97.9	97.2	99.5	98.9
October	123.6	100.4	96.0	105.0	96.5	95.2	100.8	86.8	101.8	90.6	98.8	96.0	98.8	96.6	100.1	99.1
November	122.0	100.4	96.2	106.5	97.0	95.2	101.2	86.8	102.5	91.8	98.6	96.9	98.7	98.0	98.3	98.3
December	123.9	101.1	95.7	106.6	98.0	94.5	101.4	85.4	102.3	91.4	98.0	97.5	98.0	98.1	98.0	98.7
1985																
January	125.9	101.6	94.2	105.4	97.0	94.9	102.6	83.2	102.3	91.6	98.0	98.6	96.4	97.8	97.4	99.4
February	129.7	99.9	93.5	97.9	97.0	94.5	101.7	83.8	102.0	91.3	97.4	98.5	95.0	96.3	98.0	100.2
March	129.8	98.0	94.0	92.5	97.8	94.1	99.9	86.5	101.6	90.4	97.7	98.1	95.6	97.5	98.3	99.6
April	125.1	98.3	93.6	84.4	98.9	94.7	99.3	91.3	102.4	90.1	98.2	98.9	96.4	98.3	98.5	98.1
May	126.1	97.2	93.0	87.0	99.2	94.3	99.0	92.2	101.9	89.8	98.4	97.6	96.2	97.5	99.2	98.2
June	124.6	97.5	93.0	85.1	99.7	94.3	99.5	93.2	101.9	89.5	98.8	96.8	96.6	97.7	99.4	98.7
July	120.3	97.7	93.3	86.9	101.1	94.7	97.6	96.7	102.1	89.4	99.5	95.9	98.6	98.4	99.2	98.5

Real effective exchange rates — developing countries

Index numbers, 1980-82 = 100

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Israel	Turkey
1980	116.4	84.8	95.3	94.7	104.0	93.1	91.3	98.4	89.6	95.9	96.2	93.3	98.6	100.9	92.9	100.2
1981	107.7	103.2	108.1	100.4	114.1	103.2	99.6	99.4	99.6	101.2	99.3	101.2	102.7	102.6	99.3	104.4
1982	75.9	112.0	96.5	104.9	81.9	103.8	109.1	102.2	110.8	102.9	104.5	105.5	98.7	96.5	107.7	95.4
1983	71.2	85.6	88.8	104.0	78.0	97.7	116.1	96.6	95.7	97.3	112.7	95.1	97.1	93.1	119.5	92.8
1984	79.9	85.5	89.8	99.3	91.5	105.8	85.6	100.3	96.7	95.9	119.1	107.4	95.8	95.5	118.3	90.6
1984																
July	85.6	86.4	91.3	99.5	90.9	108.7	79.6	100.5	98.8	96.2	120.7	104.7	95.7	96.7	117.6	90.7
August	85.7	86.3	92.4	99.3	91.3	109.1	83.6	100.8	97.4	96.4	121.3	106.4	96.2	97.6	119.1	91.8
September	88.7	88.6	93.0	100.1	94.2	109.7	85.8	103.6	97.4	97.7	123.3	113.8	96.9	98.9	122.0	94.0
October	82.0	89.9	89.6	98.4	96.3	107.9	87.5	105.3	97.8	97.3	121.1	112.4	96.1	98.2	122.0	94.5
November	73.7	88.4	88.1	97.4	95.8	104.8	87.8	104.7	96.4	96.3	119.7	109.0	95.0	96.6	122.0	95.4
December	76.1	91.1	87.0	98.0	96.1	101.6	89.2	107.1	98.7	96.8	121.3	111.9	95.5	97.4	114.2	95.5
1985																
January	75.0	94.1	88.2	98.9	97.8	98.3	91.4	108.8	100.0	97.0	120.5	118.4	95.7	98.3	109.5	98.0
February	77.1	93.0	89.4	99.7	100.2	96.9	93.5	111.5	101.2	97.9	120.1	123.4	95.7	99.4	119.5	102.3
March	76.5	96.7	82.9	96.6	100.9	92.2	94.5	112.1	99.9	96.2	119.3	123.4	95.7	98.6	116.1	101.5
April	76.2	89.0	81.6	92.1	99.0	91.1	92.9	108.7	98.6	92.2	118.7	118.7	94.4	96.2	112.7	96.3
May	76.7	84.1	82.9	90.2	97.9	91.3	95.1	108.8	98.2	91.1	119.8	118.6	93.1	95.2	104.6	94.1
June	76.1	74.6	85.6	86.8	97.0	91.3	98.8	108.2	97.8	89.9	119.1	118.2	91.4	95.4	105.2	89.6

International banking market size

at end of period, billions of dollars

	1981	1982	1983r	1984				1985
				Marr	Junr	Sepr	Decr	Mar
Gross claims								
Eurocurrencies, on residents and nonresidents	**1 929**	**2 146**	**2 253**	**2 339**	**2 330**	**2 322**	**2 352**	**2 461**
On nonbanks	557	634	665	685	679	676	684	708
On banks	1 372	1 512	1 588	1 654	1 651	1 646	1 668	1 753
In dollars	1 504	1 694	1 797	1 841	1 850	1 857	1 887	1 974
In other currencies	425	452	456	498	480	465	465	514
Domestic currencies, on nonresidents	**365**	**398**	**398**	**400**	**406**	**393**	**397**	**402**
On nonbanks	128	132	136	136	140	138	137	140
On banks	237	266	262	264	266	255	260	262
In dollars	188	211	217	206	218	208	210	201
In other currencies	177	187	181	194	188	185	187	201
Total	**2 294**	**2 544**	**2 651**	**2 739**	**2 736**	**2 715**	**2 749**	**2 863**
On nonbanks	685	766	801	821	819	814	821	848
On banks	1 609	1 778	850	1 918	1 917	1 901	1 928	2 015
In dollars	1 692	1 905	2 014	2 047	2 068	2 065	2 097	2 148
In other currencies	602	639	637	692	668	650	652	715
Gross liabilities								
Eurocurrencies, to residents and nonresidents	**1 954**	**2 168**	**2 278**	**2 362**	**2 360**	**2 349**	**2 383**	**2 481**
To nonbanks	372	432	479	500	503	492	500	508
To official monetary institutions	112	91	88	85	88	94	96	96
To other banks	1 470	1 645	1 711	1 777	1 769	1 763	1 787	1 877
In dollars	1 539	1 741	1 846	1 882	1 905	1 912	1 949	2 001
In other currencies	415	427	432	480	455	437	434	480
Domestic currencies, to nonresidents	**263**	**250**	**258**	**262**	**277**	**274**	**277**	**289**
To nonbanks	74	70	71	71	71	72	77	78
To banks	189	180	187	191	206	202	200	211
In dollars	126	116	133	128	140	140	143	143
In other currencies	137	134	125	134	137	134	134	146
Total	**2 217**	**2 418**	**2 536**	**2 624**	**2 637**	**2 623**	**2 660**	**2 770**
To nonbanks	446	502	550	571	574	564	577	586
To banks and official institutions	1 771	1 916	1 986	2 053	2 063	2 059	2 083	2 184
In dollars	1 665	1 857	1 979	2 010	2 045	2 052	2 092	2 144
In other currencies	552	561	557	614	592	571	568	626
Net market size	**1 155**	**1 285**	**1 377**	**1 395**	**1 417**	**1 407**	**1 415**	**1 442**

International bond issues and bank credits

millions of dollars

	1982	1983	1984	1985			Jan-Jun	
				Apr	May	Jun	1985	1984
By country of borrower								
Industrial countries	**108 772**	**102 652**	**177 077**	**17 234**	**16 863**	**21 631**	**100 857**	**97 330**
Australia	7 213	5 737	5 816	838	698	1 480	5 181	2 158
Austria	2 068	1 290	2 254	112	241	350	1 395	1 427
Belgium	1 528	2 168	1 847	336	21	610	1 597	887
Canada	15 856	8 571	13 124	400	579	1 786	9 230	4 929
Denmark	2 725	3 941	4 825	440	222	503	1 956	2 651
Finland	1 446	1 271	1 713	60	56	181	840	1 011
France	14 813	8 626	11 298	914	208	2 174	6 954	5 456
Germany	1 101	3 197	2 165	50	287	329	1 056	1 163
Greece	808	1 291	1 551	200	450	187	1 306	550
Ireland	1 136	1 869	1 377	191	39	267	898	264
Italy	6 687	4 876	6 933	1 958	771	393	6 973	2 220
Japan	8 397	14 428	17 526	1 763	1 425	1 852	10 853	11 263
Netherlands	1 000	1 213	1 973	133	123	383	896	1 527
New Zealand	4 786	802	3 208	—	266	468	1 219	1 152
Norway	2 601	1 969	1 324	135	—	1 268	1 887	641
Portugal	1 684	1 030	1 796	68	138	103	1 120	1 045
South Africa	1 889	1 300	1 422	201	73	217	692	968
Spain	2 675	4 977	4 931	616	695	300	2 645	3 248
Sweden	3 181	7 144	11 256	512	2 644	491	5 955	8 958
United Kingdom	2 836	2 726	8 899	2 198	3 648	1 937	9 806	3 938
United States	21 109	20 276	65 054	5 829	4 160	5 953	27 134	40 047
*Other**	3 233	3 950	6 785	282	123	399	1 266	1 827
Developing countries	**49 023**	**38 256**	**39 725**	**1 687**	**3 402**	**1 505**	**12 024**	**23 082**
Latin American countries	**29 667**	**15 592**	**17 464**	**286**	**152**	**130**	**1 297**	**11 806**
Argentina	1 565	1 750	4 212	—	—	—	—	12
Brazil	5 972	4 475	6 649	—	—	—	—	6 500
Chile	1 194	1 405	784	—	—	—	—	784
Colombia	776	552	589	—	52	—	52	229
Mexico	9 968	5 138	3 918	—	—	—	—	3 883
Venezuela	7 241	237	—	—	—	—	—	—
*Other***	2 951	2 035	1 312	286	100	130	1 245	398
Asian countries	**11 723**	**12 976**	**15 893**	**811**	**2 196**	**1 232**	**7 632**	**7 351**
India	555	968	945	21	—	10	348	352
Indonesia	1 822	2 363	1 924	—	400	24	424	1 074
Korea	3 277	4 387	5 201	418	429	908	3 118	2 847
Malaysia	2 872	2 197	2 605	92	120	81	1 011	1 390
Philippines	888	878	925	—	925	—	925	—
Thailand	414	747	1 221	—	75	41	666	683
Other	1 895	1 438	2 072	280	248	168	1 141	1 005
Middle Eastern and African countries	**7 633**	**9 686**	**6 368**	**590**	**1 055**	**144**	**3 096**	**3 925**
Algeria	86	1 993	821	—	700	—	1 300	200
Nigeria	2 069	2 343	985	—	—	—	—	985
Turkey	277	1 106	741	500	28	—	579	600
Other	5 201	4 244	3 821	90	327	144	1 217	2 140
Eastern European countries	**1 479**	**1 294**	**3 244**	**480**	—	**457**	**2 035**	**1 652**
Hungary	340	741	1 386	25	—	357	651	885
Soviet Union	1 131	93	1 051	333	—	—	539	528
*Other****	8	460	807	122	—	100	845	239
International organizations****	**11 353**	**16 201**	**13 287**	**1 706**	**2 499**	**870**	**9 756**	**5 497**
By type of instrument and currency								
International bond issues	**78 042**	**76 329**	**107 411**	**12 347**	**16 636**	**13 975**	**80 107**	**50 624**
Eurobonds	51 645	48 501	79 458	9 816	14 504	11 885	67 038	35 052
U.S. dollar	43 959	38 428	63 593	7 125	11 325	9 197	51 837	27 888
German mark	2 588	3 817	4 604	435	1 133	811	3 677	2 239
British pound	748	1 947	3 997	433	525	185	2 446	1 757
Japanese yen	374	212	1 212	478	180	—	1 866	348
European composite units	1 980	2 019	3 032	738	658	666	3 198	1 535
Other	1 996	2 078	3 020	607	682	1 026	4 016	1 285
Foreign bonds	26 397	27 828	27 953	2 531	2 132	2 090	13 068	15 572
U.S. dollar	5 946	4 545	5 487	308	509	200	2 157	3 287
German mark	2 952	2 671	2 243	145	65	113	802	1 018
British pound	1 214	811	1 292	92	—	—	157	744
Swiss franc	11 432	14 299	12 626	662	1 031	1 178	5 985	7 915
Japanese yen	3 418	3 772	4 628	1 195	387	337	2 990	1 783
Other	1 435	1 730	1 677	129	140	262	977	825
International bank credits	**92 585**	**82 074**	**125 922**	**8 760**	**6 129**	**10 488**	**44 565**	**76 937**
Eurocurrency credits	85 015	74 222	112 605	8 548	5 676	10 069	41 693	71 478
Foreign credits	7 570	7 852	13 317	212	453	419	2 873	5 459
Total	**170 627**	**158 403**	**233 333**	**21 107**	**22 765**	**24 463**	**124 672**	**127 561**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1982	1983	1984	1985						
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Eurodollar										
overnight	9.25	9.50	8.63	8.50	8.44	8.81	8.31	7.50	8.00	8.50
one month	9.13	9.69	8.38	8.31	8.88	8.69	8.38	7.56	7.63	7.94
three months	9.19	9.81	8.63	8.44	9.44	9.00	8.69	7.63	7.75	8.19
six months	9.50	10.06	9.13	8.69	10.00	9.44	9.00	7.88	7.88	8.44
twelve months	9.63	10.38	9.81	9.31	10.75	10.13	9.75	8.38	8.25	8.88
Euro-Canadian dollar										
one month	10.00	9.13	9.88	9.63	10.38	10.38	9.50	9.50	9.00	8.69
three months	10.00	9.50	10.81	9.63	11.19	10.56	9.81	9.50	9.38	8.94
six months	10.13	9.75	10.06	9.63	11.75	10.69	10.38	9.63	9.50	9.31
twelve months	10.25	10.00	10.44	9.88	12.06	12.00	10.75	9.94	9.63	9.50
Euro-French franc										
one month	23.00	12.13	10.69	10.31	10.63	10.63	10.31	10.13	10.50	14.00
three months	24.00	12.19	10.69	10.56	11.00	10.81	10.44	10.25	10.63	14.00
six months	22.00	12.31	11.00	11.00	11.44	11.25	10.75	10.38	10.75	13.75
twelve months	19.75	12.63	11.38	11.63	11.88	11.56	10.94	10.63	11.25	13.00
Euromark										
one month	5.88	5.25	5.50	5.75	5.81	5.69	5.75	5.50	5.44	4.69
three months	5.88	5.88	5.50	6.00	6.06	5.88	5.81	5.56	5.44	4.81
six months	5.94	6.13	5.56	6.06	6.38	6.06	5.88	5.56	5.50	4.94
twelve months	6.00	6.38	5.56	6.13	6.56	6.25	6.06	5.56	5.63	5.00
Euro-Dutch guilder										
one month	5.13	5.81	5.69	6.00	6.81	6.69	6.94	7.00	6.75	6.06
three months	5.19	6.00	5.75	6.13	7.06	6.81	6.94	6.88	6.69	6.00
six months	5.38	6.25	5.81	6.19	7.13	6.88	6.94	6.88	6.69	6.00
twelve months	5.63	6.38	5.94	6.31	7.31	6.94	7.00	6.81	6.69	6.00
Euro-Swiss franc										
one month	2.81	3.38	4.44	5.38	5.50	5.19	5.00	5.13	5.13	4.38
three months	3.25	3.75	4.56	5.38	5.75	5.50	5.19	5.13	5.25	4.50
six months	3.44	3.94	4.63	5.31	5.81	5.56	5.25	5.06	5.25	4.63
twelve months	3.44	3.94	4.69	5.19	5.63	5.44	5.25	5.00	5.25	4.69
Eurosterling										
one month	10.56	9.13	9.50	13.13	14.00	13.56	12.75	12.63	12.69	11.50
three months	10.44	9.31	9.88	12.50	13.88	13.13	12.69	12.44	12.44	11.19
six months	10.31	9.50	10.00	11.94	13.13	12.31	12.44	12.50	12.25	11.00
twelve months	10.31	9.81	10.19	11.88	12.69	11.94	12.13	12.01	11.94	10.88
Euroyen										
one month	6.75	6.25	6.19	6.19	6.50	6.25	6.13	6.31	6.19	6.25
three months	6.75	6.31	6.19	6.31	6.38	6.31	6.25	6.25	6.25	6.31
six months	7.10	6.38	6.13	6.25	6.31	6.31	6.31	6.25	6.25	6.25
twelve months	6.81	6.44	6.13	6.25	6.31	6.31	6.31	6.31	6.31	6.25
European currency unit										
one month	12.44	8.81	9.25	9.94	9.94	10.00	9.38	9.31	9.38	8.50
three months	12.31	9.19	9.38	9.94	10.06	10.13	9.56	9.31	9.38	8.50
six months	12.00	9.44	9.50	9.94	10.13	10.13	9.69	9.38	9.38	8.63
twelve months	11.19	9.63	9.63	9.94	10.13	10.25	9.88	9.50	9.38	8.75

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years at or near end of month

	1982	1983	1984	1985						
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States companies										
Eurodollar	11.16	11.59	11.25	11.05	11.65	11.73	11.24	10.58	10.49	10.65
Euromark	7.24	7.34	6.95	7.19	7.57	7.35	7.11	6.90	6.91	6.74
Swiss franc	5.70	5.83	5.73	5.85	5.95	5.86	5.74	5.69	5.69	5.69
European governments										
Eurodollar	12.53	12.65	12.04	11.72	12.40	12.29	11.97	11.20	11.17	11.31
Euromark	8.10	8.12	7.39	7.54	7.88	7.61	7.54	7.37	7.38	7.17
Swiss franc	5.40	5.63	5.24	5.17	5.35	5.34	5.21	5.20	5.22	5.16
European currency unit	n.a.	11.77	10.64	10.62	10.65	10.44	10.39	10.10	10.17	9.99

Central bank discount rates

at or near end of month

	1982	1983	1984	1985					Current	
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug 15 1985	effective since
United States	8.50	8.50	8.00	8.00	8.00	7.50	7.50	7.50	7.50	May 17, 85
Canada	10.05	9.96	10.09	10.65	10.02	9.76	9.58	9.31	9.30	Aug 15, 85
Austria	4.75	3.75	4.50	4.50	4.50	4.50	4.50	4.50	4.50	Jun 28, 84
Belgium	11.50	10.00	11.00	11.00	11.00	9.50	9.25	9.50	10.00	Aug 1, 85
Denmark	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	8.50	9.50	9.50	9.00	9.00	9.00	9.00	9.00	9.00	Feb 1, 85
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	5.00	4.00	4.50	4.50	4.50	4.50	4.50	4.50	4.00	Aug 16, 85
Ireland	14.00	12.25	14.00	14.00	12.75	12.75	12.00	11.25	11.25	Jul 30, 85
Italy	18.00	17.00	16.50	15.50	15.50	15.50	15.50	15.50	15.50	Jan 4, 85
Netherlands	5.00	5.00	5.00	5.50	5.50	5.50	5.50	5.50	5.00	Aug 16, 85
Norway	9.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	19.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	Aug 10, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	10.00	8.50	9.50	9.50	9.50	11.50	11.50	10.50	10.50	Jul 12, 85
Switzerland	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	10.00	9.00	9.38	13.75	12.25	12.25	12.25	11.31	11.31	Jul 26, 85
Japan	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Oct 22, 83
New Zealand	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	15.45	18.50	21.75	22.33	21.25	20.25	19.25	18.25	18.25	Jul 4, 85
Argentina*	10.56	15.10	18.19	20.78	25.82	32.50	6.50	6.00	n.a.	Jul 15, 85
Korea	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.30	8.05	12.11	11.91	12.08	12.07	n.a.	n.a.	n.a.	May, 85
Singapore	7.00	7.00	6.75	6.50	6.00	5.50	5.50	5.00	n.a.	Jul, 85
Thailand	12.50	13.00	12.00	12.00	12.00	12.00	12.00	11.00	11.00	Jul 26, 85
Venezuela	13.00	11.00	11.00	10.00	10.00	9.00	9.00	9.00	9.00	May 28, 85

*Percent per month.

Day-to-day money rates

monthly averages

	1981	1982	1983	1984	1985						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	12.37	8.95	9.47	8.38	8.35	8.50	8.58	8.27	7.97	7.51	7.68
Canada	14.53	10.63	8.78	10.50	9.75	9.88	10.41	10.25	9.75	9.56	9.27
Austria	7.50	6.00	5.75	7.63	6.75	6.50	6.75	6.88	6.13	6.13	6.13
Belgium	12.45	9.29	7.39	9.12	9.22	8.99	9.13	9.45	8.84	8.00	7.02
Finland	11.30	11.50	16.70	15.07	14.57	14.18	14.00	13.96	13.80	13.77	13.60
France	15.46	12.88	12.27	10.95	10.56	10.65	10.67	10.48	10.17	10.22	9.88
Germany	10.58	6.15	5.61	5.62	5.52	5.78	5.85	5.70	5.67	5.55	5.16
Ireland	16.88	14.54	12.19	14.50	14.63	14.75	14.63	13.63	12.63	12.00	n.a.
Italy	20.63	19.00	17.88	17.25	16.06	16.00	16.00	15.77	15.46	15.25	15.00
Netherlands	10.67	5.31	5.84	5.60	5.78	5.75	6.93	6.74	7.15	6.81	n.a.
Norway	18.60	11.00	12.30	12.50	10.70	12.80	11.60	13.40	12.20	13.00	12.60
Spain	18.73	15.81	16.77	12.11	11.35	12.12	11.99	10.42	12.55	13.93	n.a.
Sweden	13.95	9.31	11.52	11.88	10.58	13.50	13.50	13.49	14.89	16.00	15.39
Switzerland	3.38	1.25	1.88	1.50	2.63	1.75	2.50	2.00	2.25	2.00	2.00
United Kingdom	9.13	6.70	7.78	6.31	7.38	11.94	10.60	12.38	11.26	10.17	12.45
Argentina*	12.84	11.04	4.56	10.88	10.89	11.14	13.34	14.78	15.12	15.27	15.10
Japan	6.70	6.92	6.44	6.41	6.17	6.16	6.42	6.07	6.01	6.13	6.17
South Africa	12.75	14.15	16.06	21.13	22.19	21.56	21.50	21.50	19.81	18.60	17.50
Argentina	6.98	12.77	14.65	17.75	16.63	18.63	20.35	23.74	32.00	24.52	5.00
Brazil	103.74	150.42	184.69	272.02	378.76	287.93	337.15	346.05	302.31	239.40	214.19
Hong Kong	10.75	9.13	13.90	6.80	6.94	6.18	6.15	7.21	5.88	6.35	n.a.
Korea	14.40	13.84	11.40	10.00	8.90	9.30	9.70	9.00	9.50	9.00	9.50
Philippines	14.70	16.12	31.18	15.22	23.15	19.80	27.80	23.97	25.12	25.95	n.a.
Singapore	3.96	11.45	7.05	6.01	5.40	6.07	5.30	4.69	5.75	5.18	4.94

*Percent per month.

Treasury bill rates

bond equivalent yields, at or near end of month

	1981	1982	1983	1984	1985						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	11.90	8.15	9.28	7.99	7.88	8.87	8.42	8.08	7.63	7.05	7.40
Canada	14.41	9.80	9.71	9.84	9.50	11.27	10.40	9.77	9.51	9.33	9.06
Belgium	16.22	12.42	11.00	10.90	10.85	10.85	10.60	9.63	9.13	9.02	9.63
Ireland	18.13	15.25	12.01	15.10	14.59	14.54	13.77	13.43	12.21	11.29	n.a.
Italy	21.36	19.11	16.95	14.69	13.75	13.46	13.38	14.31	14.22	n.a.	n.a.
Netherlands	9.75	5.63	5.63	5.88	6.31	6.51	6.75	7.00	6.75	6.75	n.a.
Spain	n.a.	15.28	14.46	n.a.	11.97	12.04	10.45	11.85	10.33	10.27	n.a.
Sweden	n.a.	12.90	11.75	11.83	13.53	14.28	14.33	14.47	16.48	16.64	15.04
United Kingdom	15.35	9.96	9.04	9.33	11.89	13.91	12.77	12.26	12.16	12.33	11.30
Australia	13.27	9.39	8.54	12.27	12.22	13.51	14.82	14.72	14.25	13.70	14.70
Japan	5.42	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	n.a.
New Zealand	11.25	11.25	7.80	13.50	17.50	17.45	19.50	23.40	21.00	21.00	24.00
South Africa	14.55	14.62	18.43	21.94	23.05	23.01	22.45	21.92	18.78	16.00	16.48
Brazil	92.62	115.40	179.15	273.03	273.03	273.03	273.03	273.03	215.12	209.88	223.13
Mexico	33.23	57.44	53.78	48.67	48.07	50.00	58.15	57.69	63.34	62.47	74.99
Philippines	13.22	14.54	15.99	47.14	35.69	30.92	34.29	34.22	35.32	33.43	35.32
Singapore	3.03	2.74	2.59	2.91	2.93	2.93	2.97	2.94	3.07	2.79	2.68

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1981	1982	1983	1984	1985						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	12.96	8.94	9.89	8.34	8.17	9.18	8.94	8.39	7.70	7.70	7.85
Canada	15.25	9.95	9.87	10.10	9.65	11.80	10.55	10.20	9.80	9.70	9.25
Belgium	16.00	12.35	11.00	10.70	10.70	10.70	10.45	10.10	9.25	8.90	n.a.
France	15.25	12.75	12.19	10.69	10.31	10.69	10.63	10.31	10.25	10.25	10.00
Germany	10.50	6.20	6.30	5.75	5.85	6.25	6.20	5.90	5.80	5.60	5.00
Ireland	18.50	15.75	12.19	15.13	14.63	14.75	13.75	12.75	12.75	11.69	n.a.
Italy	21.00	19.00	17.88	17.25	16.00	16.13	15.75	15.25	15.00	14.75	14.26
Netherlands	11.00	5.25	6.00	5.75	6.50	7.19	6.88	7.13	6.94	6.69	n.a.
Portugal	13.80	15.05	24.11	24.57	24.57	24.53	24.61	24.52	n.a.	n.a.	n.a.
Spain	15.52	16.55	18.48	12.13	12.27	12.22	12.15	12.34	12.49	14.04	n.a.
Switzerland	10.12	3.88	3.88	5.00	5.63	6.13	5.75	5.38	5.38	5.38	5.38
United Kingdom	15.69	10.50	9.31	9.88	12.50	13.88	13.06	12.56	12.44	12.44	11.13
Australia	16.00	10.65	9.50	12.50	13.55	14.60	15.60	15.70	15.05	15.55	15.15
Japan	6.30	6.80	6.42	6.29	6.26	6.32	6.27	6.25	6.25	6.30	6.20
New Zealand	16.05	16.75	12.10	15.25	18.75	22.75	25.00	23.50	23.20	24.00	25.30
South Africa	15.47	15.26	19.12	22.78	24.07	24.12	23.50	22.09	19.35	17.35	17.60
Chile	30.46	55.90	20.68	20.68	20.68	30.42	27.86	38.93	32.95	n.a.	n.a.
Hong Kong	14.18	10.13	12.84	8.26	7.85	7.64	8.28	7.35	6.96	7.00	n.a.
Indonesia	14.48	18.50	19.50	19.00	19.00	20.50	22.00	19.00	18.00	17.50	15.50
Korea	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.50	8.50	9.80	10.30	9.50	9.30	10.01	9.50	12.00	7.75	n.a.
Philippines	17.70	15.96	15.61	33.21	29.38	26.95	24.73	23.43	26.77	24.90	n.a.
Singapore	7.81	8.69	8.44	7.00	6.03	6.44	6.06	5.31	5.25	5.31	5.13
Taiwan	10.94	9.94	7.65	8.07	6.78	9.14	7.76	6.45	6.98	6.47	6.79
Thailand	14.29	12.25	16.00	12.00	14.00	17.75	16.50	16.00	n.a.	13.00	12.00

Commercial bank deposit rates

at or near end of month

	1981	1982	1983	1984	1985						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	12.62	8.25	9.70	8.35	8.06	9.22	8.80	8.25	7.50	7.57	7.95
Canada	15.20	9.85	9.82	10.05	9.60	11.75	10.50	10.15	9.75	9.65	9.20
Austria	9.63	6.25	6.50	7.50	6.94	6.88	6.88	6.88	6.50	6.50	6.38
Belgium	15.50	12.25	11.25	10.63	10.75	10.87	10.25	9.50	9.00	8.75	9.50
Denmark	10.00	9.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	5.00
Finland	5.00	4.25	5.25	5.25	5.25	4.75	4.75	4.75	4.75	4.75	4.75
France	9.16	8.24	7.66	7.04	6.85	6.90	6.90	6.82	6.67	6.69	n.a.
Germany	9.50	6.00	5.90	5.25	5.35	5.55	5.70	5.45	5.30	5.15	4.45
Ireland	18.38	15.25	11.75	14.63	14.25	14.25	13.50	12.00	11.75	11.25	n.a.
Italy	13.25	13.25	13.25	11.64	11.00	11.00	10.90	10.96	10.88	10.88	10.86
Netherlands	11.00	5.38	6.13	5.69	6.38	7.06	6.81	7.00	6.81	6.63	n.a.
Norway	12.75	13.50	12.75	12.75	12.25	13.00	12.75	12.75	12.40	12.25	12.25
Portugal	14.00	15.00	21.50	27.00	27.00	27.00	27.00	27.00	27.00	27.00	27.00
Spain	11.78	12.53	12.62	11.64	11.34	11.02	10.80	10.61	10.83	10.55	n.a.
Sweden	12.65	12.15	11.70	11.45	13.10	13.65	13.70	13.77	16.13	16.57	14.95
Switzerland	8.75	3.00	3.50	4.50	5.00	5.75	5.25	4.88	4.88	5.13	4.63
United Kingdom	15.69	10.31	9.31	9.88	13.13	13.75	13.00	12.50	12.38	12.31	11.06
Australia	15.65	10.20	10.40	12.75	13.78	13.82	14.95	15.55	14.93	15.40	14.85
Japan	6.50	7.00	6.50	6.38	6.42	6.50	6.36	6.36	6.36	6.30	6.35
New Zealand	15.50	16.50	11.50	15.25	17.00	18.75	20.00	23.00	23.50	23.00	24.50
South Africa	14.75	15.25	20.13	22.88	24.13	23.75	23.63	22.25	20.25	18.00	18.50
*Argentina**	7.13	8.50	14.50	31.23	23.42	23.01	25.89	29.59	32.88	7.00	7.00
Brazil	110.05	21.00	23.00	27.00	26.00	25.50	26.50	25.50	25.00	24.00	23.00
Chile	32.24	47.09	20.57	20.68	20.19	30.29	30.00	38.61	32.85	28.80	29.20
Hong Kong	12.50	7.50	9.00	7.00	5.50	5.50	5.00	4.50	4.00	3.50	n.a.
Korea	14.40	7.60	7.60	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	10.0	8.40	7.75	9.58	9.50	9.50	9.66	9.42	9.67	8.17	n.a.
Mexico	[illegible]	52.54	57.15	47.45	47.45	47.45	51.89	54.50	55.90	59.50	64.35
Philippines	13.35	14.10	14.96	31.01	27.07	24.36	22.12	23.88	21.40	25.95	n.a.
Singapore	7.50	8.25	7.44	6.13	5.44	6.01	5.82	5.01	4.88	5.07	4.88
Taiwan	10.75	7.50	7.00	6.50	6.50	6.50	6.25	6.25	6.25	6.00	6.00
Thailand	10.00	10.00	10.00	13.00	13.00	13.00	13.00	16.00	n.a.	13.00	10.50
Venezuela	14.75	15.50	12.00	12.50	12.00	13.00	11.50	11.50	10.00	10.00	n.a.

*Percent per month.

Domestic government bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984	1985						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	14.33	10.61	12.00	11.61	11.28	12.09	11.92	11.64	10.71	10.62	10.91
Canada	15.27	11.69	12.02	11.66	11.38	12.30	11.93	11.50	10.76	10.88	10.91
Austria	10.37	8.81	8.02	8.04	8.00	8.00	8.06	8.06	8.01	7.87	7.77
Belgium	13.99	12.66	11.89	11.56	11.56	11.58	11.50	11.49	10.78	10.65	11.00
Denmark	20.91	20.14	12.96	14.60	13.66	13.74	13.33	12.87	12.26	12.16	10.76
Finland	10.98	10.64	11.16	10.73	10.84	10.91	10.39	10.34	10.45	10.46	10.48
France	16.44	15.40	13.96	12.70	12.12	12.25	12.27	11.98	11.72	11.83	11.65
Germany	9.71	7.90	8.38	7.17	7.35	7.71	7.44	7.30	7.10	7.02	6.88
Ireland	18.28	14.54	14.25	14.90	14.57	14.74	13.55	13.08	13.17	12.71	n.a.
Italy	21.39	19.70	17.69	14.52	13.22	13.25	13.48	13.53	13.85	13.91	n.a.
Netherlands	11.28	8.16	8.58	7.72	7.42	7.93	8.06	7.73	7.58	7.39	n.a.
Norway	12.37	13.32	12.50	12.00	12.50	12.00	12.38	12.38	12.38	12.70	12.70
Portugal	17.39	16.63	22.11	22.23	20.34	20.69	20.21	20.84	21.82	n.a.	n.a.
Spain	16.20	15.92	17.25	13.93	13.29	13.44	13.49	13.41	13.56	n.a.	n.a.
Sweden	12.80	13.01	12.30	12.04	12.39	13.23	12.93	13.42	13.70	13.48	12.98
Switzerland	5.39	4.23	4.53	4.60	4.68	4.86	4.89	4.75	4.74	4.78	4.80
United Kingdom	15.02	10.62	9.94	10.25	10.65	10.56	10.34	10.42	10.51	10.45	10.16
Australia	15.00	13.00	13.65	13.40	13.12	13.70	13.85	14.05	13.70	13.50	13.50
Japan	8.11	7.96	7.45	6.36	6.37	7.19	6.97	6.85	6.60	6.53	6.38
New Zealand	12.55	12.84	10.50	16.90	17.09	17.35	17.50	17.95	19.64	17.83	17.60
South Africa	13.33	11.31	13.64	16.55	17.25	17.85	16.85	16.40	15.85	15.15	15.90
Philippines	13.01	13.64	14.47	18.54	21.15	24.20	13.69	12.75	n.a.	17.00	n.a.
Venezuela	12.50	15.00	13.50	14.00	13.00	13.50	13.00	12.50	12.50	12.50	12.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1981	1982	1983	1984	1985						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	15.75	11.50	11.00	10.75	10.50	10.50	10.50	10.50	10.00	9.50	9.50
Canada	17.25	12.50	11.00	11.25	11.00	11.50	11.75	10.75	10.50	10.50	10.50
Austria	13.50	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	18.00	15.50	13.75	14.00	14.00	14.00	14.00	13.50	12.50	12.00	12.00
Denmark	15.00	14.00	10.00	10.50	10.50	10.50	11.00	10.50	10.50	10.50	9.50
Finland	9.84	8.95	10.18	10.68	10.69	10.30	10.36	10.38	10.37	10.37	n.a.
France	14.00	12.25	12.25	12.00	11.50	11.50	11.50	11.50	11.25	11.25	10.85
Germany	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	17.25	16.50	13.75	15.75	15.75	15.75	15.75	14.50	14.50	14.00	13.25
Italy	22.50	20.75	18.75	18.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00
Netherlands	12.00	6.25	7.00	6.25	6.75	7.75	7.50	7.13	7.75	7.75	n.a.
Norway	13.75	14.50	13.50	13.00	11.50	12.88	12.50	12.50	12.90	12.70	12.90
Portugal	20.50	23.50	30.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00
Spain	17.04	19.00	20.85	13.68	13.73	13.71	13.57	13.75	13.76	14.55	n.a.
Sweden	15.00	15.00	13.50	14.50	14.50	14.50	14.50	14.50	16.25	16.25	15.25
Switzerland	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	14.50	10.00	9.00	9.50	12.00	14.00	13.00	12.50	12.50	12.50	11.50
Australia	15.75	15.00	12.75	13.50	14.25	14.75	16.00	16.50	16.75	17.75	17.50
Japan	6.95	6.28	5.89	5.70	5.70	5.70	5.70	5.70	5.70	5.70	5.69
New Zealand	13.00	13.00	11.00	14.00	14.00	15.00	17.00	n.a.	25.00	25.00	24.00
South Africa	17.00	18.00	20.00	24.00	25.00	25.00	25.00	25.00	23.00	22.00	21.00
Argentina*	7.61	9.00	15.50	32.05	24.25	23.84	26.71	32.47	37.81	8.50	8.50
Brazil	152.40	23.81	24.00	31.00	30.00	29.50	30.50	26.00	25.50	25.00	24.56
Chile	49.54	64.11	30.90	60.82	47.30	47.54	51.00	51.16	46.15	47.28	51.47
Hong Kong	16.00	10.50	13.50	11.00	10.00	10.00	9.50	9.00	8.50	8.00	6.00
Indonesia	19.25	22.00	19.75	23.50	22.50	22.50	23.50	23.00	22.00	21.50	20.75
Korea	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	12.00	12.50	11.00	12.00	12.00	12.00	12.00	12.00	12.00	11.00	n.a.
Mexico	31.81	46.12	56.44	47.54	47.17	47.33	49.36	51.93	53.76	54.92	57.00
Philippines	18.00	18.00	18.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Singapore	11.83	9.33	8.98	9.40	9.08	9.03	9.03	8.73	8.48	8.28	8.03
Taiwan	15.25	10.75	10.25	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Thailand	17.00	16.00	16.00	16.50	16.50	16.50	17.00	17.00	n.a.	16.50	16.50
Venezuela	15.50	17.00	16.00	16.00	15.00	15.00	15.00	15.00	14.00	14.00	n.a.

*Percent per month.

Domestic corporate bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984	1985						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	15.50	11.75	12.63	12.25	12.00	13.00	12.50	12.38	11.25	11.25	11.65
Canada	16.18	12.74	12.89	12.42	12.08	12.95	12.46	12.24	11.34	11.50	n.a.
France	17.33	15.86	14.35	12.94	12.44	12.66	12.54	12.40	12.20	12.67	12.65
Germany	10.50	8.20	8.30	7.20	7.20	7.20	7.30	7.30	7.20	7.10	7.10
Netherlands	11.03	7.80	8.51	7.51	7.33	8.00	8.22	7.87	7.62	7.41	n.a.
Norway	13.36	14.13	13.25	12.75	12.75	12.75	13.25	13.25	13.25	13.50	13.50
Spain	14.76	17.10	19.84	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sweden	12.94	13.37	12.21	12.33	12.34	12.67	13.31	13.19	13.80	13.75	13.25
Switzerland	n.a.	5.80	4.92	5.09	5.06	5.16	5.24	5.14	5.18	5.15	5.16
United Kingdom	16.55	12.34	11.57	11.64	12.06	11.98	11.55	11.56	11.61	11.54	11.22
Japan	7.70	7.55	7.09	6.21	6.46	6.98	6.93	6.82	6.70	6.63	6.55
Korea	26.90	16.00	14.20	15.00	14.70	14.70	14.70	14.60	14.70	14.30	14.00
Venezuela	17.00	18.00	18.00	18.00	18.00	18.00	18.00	17.00	17.00	17.00	n.a.

Key to data in tables

I. International markets

Data on the *international banking market size* are based on resident and nonresident Eurocurrency (i.e., foreign currency) assets and liabilities and on nonresident domestic currency assets and liabilities of banks in nearly all European countres, the Bahamas, Bahrain, Canada, Cayman Islands, Hong Kong, Japan, Netherlands Antilles, Panama, Singapore, and the United States. All assets and liabilities of international banking facilities (IBFs) of banks in the United States are treated as Eurocurrencies.

An *international bond issue* may be either a Eurobond issue or a foreign bond issue. A *Eurobond issue* is one placed principally in countries other than that of the currency in which the bond is denominated, usually through an international syndicate. A *foreign bond issue* is one issued by a nonresident borrower on the market of a single country and denominated in that country's currency. Data on new international bond issue volume include all publicly announced issues of straight bonds, convertibes bonds with warrants, floating rate notes, and certificates of deposit with an original maturity of three years or more (one year or more beginning in 1985), whether publicly or privately placed.

An *international bank credit* may be either a Eurocurrency credit or a foreign credit. A *Eurocurrency credit* is one denominated in a currency that is foreign to the country of the bank office extending the credit. *A foreign credit* is one extended to a nonresident borrower and denominated in the domestic currency of the country in which the bank office extendng the credit is located. Data on new international bank credit volume include all publicly announced bank credits with an original maturity of one year or more (term loans, revolving lines of credit, and facilities to back up the issuance of other financial instruments such as commercial paper, short-term notes, certificates of deposit and banker's acceptances).

Data on international bond issues and bank credits through 1984 were compiled by Morgan Guaranty Trust Company. Beginning in January 1985 these data are based on figures published in the OECD's *Financial Statistics Monthly*.

II. Domestic markets

Central Bank discount rates

Rates shown are the official discount rates with the exception of:

Ireland — Short Term Facility rate.

South Africa — discount rate for 90 day banker's acceptances.

United Kingdom — rate of discount for outright purchases of 15-33 day bank bills.

Day-to-day money rates

Argentina—7-day interbank money regulated by the Central Bank.

Austria — day-to-day interbank rate.

Australia — approximate effective interest rate in the authorized short-term money market.

Belgium — day-to-day loan rate in the call money market.

Brazil — interbank overnight money.

Canada—chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48-hour call money.

Japan—Tokyo interbank call money, unconditional lenders rate.

Korea — call money.

Netherlands — open-market call money.

Norway — day-to-day interbank rate.

Philippines — interbank call loan rate.

Singapore — interbank overnight money.

South Africa — discount houses basic call rate.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

United Kingdom — call money.

United States — federal funds rate.

Treasury bill rates

Australia — new issues of 13-week Treasury notes.

Belgium — new issue of 3-month Treasury certificates.

Brazil — 3-month Treasury bills.

Canada — 3-month Treasury bills at tender.

Ireland — 3-month central bank exchequer bills at tender.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — simple average of 91-day Treasury bills at tender until June 1984. Beginning July 1984 rates refer to the weighted average interest rate on 91- to 183-day Treasury bills sold to banks under negotiated basis.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — Bank of Spain 3-month certificates of deposit used for monetary correction until March 1982. New series as of April 1982, 6-month Treasury bills.

Sweden — new issues of 3-month Treasury bills until June 1982. New series as of July 1982, 6-month Treasury discount notes, market rate.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — 3-month prime finance company paper.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

Chile — Central bank 60-day fixed rate promissory notes (PDBC) at tender.

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Indonesia — 1-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month "gen-saki" rate.

Korea — 3-month financial bill.

Malaysia — 3-month interbank deposits.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines—weighted average interest rate for 90-day promissory rates.

Portugal — average of 30- to 90-day interbank deposits.

Singapore — 3-month bank acceptances.

South Africa — 90-day bank acceptances.

Spain — 1-month interbank deposits.

Switzerland — 3-month interbank deposits.

Taiwan — interbank call money.

Thailand — interbank call money.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the Central Bank until August 1984. New series as of September 1984, 30-day acceptances maximum interest rate.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month certificates of deposit with prefixed yields until July 1982. New series as of August 1982, 6-month certificates of deposit reported as a spread above monetary correction which is set every month in relationship to inflation.

Canada — 3-month time deposits.

Chile — 30-day time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — 3-month certificates of deposit. Rate set by the Hong Kong Association of Banks.

Ireland — 3-month deposits.

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Malaysia — 3-month time deposits.

Mexico — 3-month certificates of deposit until September 1983. New series as of October 1983, 3-month promissory notes.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month special term deposits.

Philippines — Weighted average interest rates on 60- to 90-day time deposits of sample commercial banks.

Portugal — 90- to 180-day time deposits until May 1984. New series as of June 1984, 180-day to one-year time deposits.

Singapore — 3-month certificates of deposit.

South Africa — 3-month negotiable certificate of deposit.

Key to data in tables — continued

Spain — Deposits over 6 months and less than 1 year for Pts. 1 million or more reported by the Bank of Spain.

Sweden — 3-month certificates of deposit.

Switzerland — 3-month time deposits.

Taiwan — 3-month time deposits.

Thailand — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for domestic depositors only.

Domestic government bond yields

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 20-year government bonds.

Belgium — Belgium National Bank secondary market average yield on Central government bonds of more than 5 years' maturity quoted on Brussels Stock exchange.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 12% serial bonds maturing 2001 until April 1983. New series as of May 1983; 10% serial bonds maturing 2004.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — INSEE secondary market weighted average yield of public sector bonds with a remaining maturity of 10 years or more.

Germany — Frankfurter Allgemeine Zeitung 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9-years or more.

Japan — Average yield of national government bonds with maturities of 10 years or more.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1996 until December 1982. New series as of January 1983, average yield of long-term government bonds.

Philippines — weighted average interest rate of outright sales on secondary transactions for Central Bank certificates of indebtedness.

Portugal — yield of 4% Centenary Loan of 1940.

South Africa — 25-year government bonds until August 1983; 20-year Republic of South Africa bonds until April 1984; new series as of May 1984, secondary market yield for the 13% due 2005 Republic of South Africa bond.

Spain — weighted average of yields of several central government issues with original maturity of less than five years.

Sweden — 15-year government bonds until October 1983. New series as of November 1983, 5-year government bond yield index, market rate.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Brazil — prefixed rate applied to working capital loans until July 1982; monetary-corrected free rate applied to working capital loans from August 1982 to July 1983. New series as of August 1983, maximum legal rate reported as a spread above monetary correction which is set every month in relationship to inflation. Charges for fees and commissions are often added.

Canada — prime rate.

Chile — average prime rate of six major commercial banks.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month. A spread above base rate is often added.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Indonesia — prime rate for domestic affiliates of foreign companies.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Malaysia — Bank of Commerce Berhad base lending rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .25% per quarter on the total line of credit until January 1983. New series as of February 1983, special rate of first class, large borrowers.

Philippines — prescribed administrative ceiling for unsecured loans with maturities of 365 days and below, including charges until December 1982. New series as of January 1983, modal rate to prime borrowers.

Portugal — maximum rate for 90- to 180-day loans.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — overdraft rate for prime industrial borrowers, commission not included.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

Taiwan — maximum rate for 3- to 12-month secured loans. Rate is an indication only and may vary from actual bank lending rate which is subject to volatile interbank rates.

Thailand — prime rate.

United Kingdom — clearing bank base lending rate. A spread above base rate is often added.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for domestic prime borrowers only.

Domestic corporate bond yields

Canada — McLeod, Young, Weir Co. Ltd., weighted long-term bond yield index for AA corporates.

France — INSEE secondary market weighted average yield of private company bonds with a remaining maturity of 10 years or more.

Germany — Bundesbank secondary market weighted average yield of industrial bonds with a remaining maturity of more than 3 years.

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 6%-6.5% corporate bonds until December 1981. As of January 1982, CBS secondary market weighted average yield on all commercial bank issues with a quotation between 92% and 103%.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984 until December 1982. New series as of January 1983 average yield of long-term industrial bonds.

Spain — average yield for a selected group of electricity companies.

Sweden — Central Satistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies. Mixture changed as of January 1982.

United Kingdom — Financial Times secondary market average yield of industrial and financial company debentures and loan stocks with an average of 25 years to maturity.

United States — Salomon Brothers index of new issue yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

World Financial Markets

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